

Message Text

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FOLLOWING CABLE SENT PRIORITY ACTION NEW DELHI INFO CALCUTTA
MADRAS MARCH 31 REPEATED TO YOU

QUOTE LIMITED OFFICIAL USE BOMBAY 0811

E.O. 11652 N/A
TAGS: EGEN, IN
SUBJ: AMERICAN DRUG FIRMS IN BOMBAY REACT TO THE NEW DRUG POLICY

1. MOST OF THE PEOPLE CONNECTED WITH AMERICAN AFFILIATED DRUG FIRMS IN BOMBAY DID NOT RECEIVE COPIES OF THE OFFICIALS DOCUMENT TABLED BY THE PETROLEUM AND CHEMICAL MINISTER BAHUGUNA UNTIL THE EVENING OF MARCH 30. THE ORGANIZATION OF PHARMACEUTICAL PRODUCERS OF INDIA (OPPI), WILL NOT COMMENT ON THE NEW POLICY UNTIL ITS EXECUTIVE COUNCIL MEETING THIS EVENING (MARCH 31). WE, HOWEVER, INFORMALLY DISCUSSED THE SUBJECT WITH THE CHIEF EXECUTIVES OF PHIZER, ABBOT AND AMERICAN HOME PRODUCTS AND THEIR COMMENTS ON SOME OF THE SALIENT FEATURES OF THE POLICY ARE AS FOLLOWS:

2. S.V. PILLAI OF PHIZER AND RUSY LANGRANA OF ABBOT SEE A GREAT DEAL OF POLITICAL COMPULSION IN THE NEW POLICY. THE EFFORT TO APPEASE THOSE IN THE LOK SABHA WHO HAD CALLED FOR IMPLEMENTATION OF HATHI COMMITTEE'S EVEN MORE DRASTIC RECOMMENDATIONS FOR REDUCTION OF FOREIGN INVESTMENT IN THE INDUSTRY, HAS RESULTED IN A POLICY PROVIDING FOR ELEBORATE MECHANISMS WHICH, IF
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EFFECTIVELY IMPLEMENTED, WOULD SERIOUSLY HAMPER THE FOREIGN DRUG SECTOR IN ALL ASPECTS OF ITS OPERATIONS INCLUDING MANAGEMENT CONTROL, PRICING, PROFITS, PRODUCT DEVELOPMENT, RESEARCH AND EXPANSION. PILLAI, HOWEVER, BELIEVES THAT, EXCEPT FOR POSSIBLE IMMEDIATE EQUITY DILUTION OF FOREIGN FORMULATING FIRMS, GOI IS UNLIKELY TO MOVE SOON TO IMPLEMENT THE POLICY.

3. AS MIGHT BE EXPECTED, LANGRANA CHARACTERIZED THE PROCEDURE OUTLINED FOR EQUITY DILUTION OF OF FOREIGN FORMULATING FIRMS AS INEQUITABLE AND DISCRIMINATORY. WHILE GENERAL FERA GUIDELINES PROVIDE FOR NEGOTIATED DISINVESTMENT OR DILUTION THROUGH THE OFFERING OF PUBLIC SUBSCRIPTION BY FOREIGN FIRMS, THE DRUG POLICY TAKES AWAY THIS ADVANTAGE FROM FORMULATING COMPANIES AND PROVIDES FOR MANDATORY TRANSFER OF THE BULK OF THE EQUITY IN EXCESS OF 40 PERCENT TO "GOVERNMENT FINANCIAL OR PUBLIC SECTOR INSTITUTIONS." LANGRANA BELIEVED THAT SPECIFIC MENTION OF THE WORK "PUBLIC SECTOR" MEANT THAT GOI-OWNED PHARMACEUTICAL FIRMS COULD AS WELL OBTAIN EQUITY IN FORMULATING FIRMS WICH, IN EFFECT, WOULD BE BACK DOOR NATIONALIZATION.

4. OTHER ASPECTS OF THE NEW DRUG POLICY WHICH CONCERNED OUR CONTACTS WERE: (A) ISSUANCE OF NEW INDUSTRIAL LICENSES AND REGULATION OF CURRENT PRODUCTION CAPACITY, (B) POSSIBLE TRANSFER OF TECHNOLOGY TO PUBLIC SECTOR AND (C) RESEARCH AND DEVELOPMENT OBLIGATIONS FOR THE FOREIGN SECTOR. THEY ARE AFRAID THAT INTRICATE FORMULAS AND PROCEDURES OUTLINED IN THE NEW POLICY FOR PRODUCTION OF BASIC DRUGS AND FORMULATIONS WOULD RESULT IN EVEN MORE INCREASED BUREAUCRATIC CONTROL OF FOREIGN DRUG FIRMS.

5. HORIZONTAL TRANSFER OF TECHNOLOGY BY FOREIGN FIRMS TO THE PUBLIC SECTOR FIRMS, "IF IN NATIONAL INTEREST" IS, THEY FEEL ON MOST CONTROVERSIAL FEATURES OF THE NEW POLICY. PILLAI STATED LIMITED OFFICIAL USE

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THAT SUCH A CLAUSE IS LIKELY TO BRING TO A HALT ALMOST ALL PRODUCT DEVELOPMENT BY FOREIGN FIRMS OPERATING IN INDIA. THEY WILL ALSO BE VERY RELUCTANT TO IMPORT NEW TECHNOLOGIES AND PRODUCT FORMULAS FROM THEIR OVERSEAS PRINCIPALS.

6. THE NEW POLICY CALLS FOR A STEP-UP IN RESEARCH AND DEVELOPMENT IN DRUG FIRMS EQUIVALENT TO 20 PERCENT OF THE FIXED ASSETS AND A RECURRING EXPENSE EQUAL TO FOUR PERCENT OF THE TURNOVER. ACCORDING TO OUR CONTACTS, BOTH THESE REQUIREMENTS ARE FAR BEYOND THE CAPACITY OF THE DRUG INDUSTRY AND WOULD SERIOUSLY AFFECT THEIR PROFITABILITY. HOWEVER, LANGRANA STATED THAT THE DEFINITION OF R&D IS EXTREMELY VAGUE AND A NUMBER OF STANDARD DRUG TESTING PROCESSES ALREADY USED BY THE COMPANIES IN EFFECT COULD BE DENOTED UNDER THIS HEADING.

7. THERE WAS LITTLE CONCERN EXPRESSED ON THE ABOLITION OF BRAND NAMES OF FIVE COMMON DRUGS WHICH, ACCORDING TO LANGRANA, HAS BEEN EXPECTED AND WAS ON THE CARDS FOR A LONG TIME.

8. WE SHALL BE SENDING OUR REPORT ON OPPI MEETING EARLY NEXT WEEK. COURTNEY UNQUOTE
GOHEEN

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